



The U.S. News-Letter

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Dear Subscriber:

Right at deadline time, this late report on what lies ahead for Spain -- a high official's answer to our query: Will the regime be toppled by leftists?
Answer: A categorical no. Franco is in firm command, and after he dies a strong army will be the power behind the figurehead monarchy of Juan Carlos. Terrorism will go on, but no chance Spain will follow in Portugal's path.

Now to Ford's \$28 billion tax cut. A stunner, double what anyone expected. But will it fly? No. Absolutely no way that Congress will approve it. Reason -- the Democratic leaders won't accept a matching ceiling on spending. Instead they'll push through a 1976 tax reduction with no strings attached -- some \$16.8 billion: \$12 billion for individuals, \$4.8 billion for business. Ford, of course, will veto that, committed as he is to a clamp on spending to balance the loss of tax revenue. And from there on, as it is with energy, policy will be shaped by confrontation. Chance of a veto override: excellent.

With your '76 tax bill up in the air, the political squabbling also means some congressional programs will be delayed -- long-range tax reform for one. The House is just about to turn the screws on deductions (real estate shelters, business use of a home, as examples), but the Senate won't take up reform now, invoking the need to concentrate on tax-cut debate for the rest of the year.

However, other action is due soon, some pluses and minuses for business:

A tax break for small concerns will be extended -- the rates will be held at 20% and 22% for the first and second \$25,000 of income, 48% for over \$50,000.
Federal job-safety rules will be eased. No more inspections for companies with three employees or less; lower maximum fines for employers of 15 or less. Also in the occupational safety and health area: A provision due next year will initiate a nationwide program of offering advice to firms on OSHA rules. Small business loans? SBA will get \$109 million and Congress won't raise the interest rate to the 9.5% Ford wants. Another bill will hike the maximum to be loaned to \$500,000. But a catch -- SBA can't be forced to make the loans.

Government gives -- and it takes too. Federal unemployment compensation will cost \$56 per employee annually in 1977 (no truth to those rumors of \$70), and next year Congress will set federal guidelines for workmen's compensation, meaning an increase in support costs for business. And health insurance -- a national plan of total cradle-to-grave coverage -- isn't coming anytime soon, but a limited version that would help pay bills for "catastrophic" illnesses, at a cost of \$3.6 billion in payroll taxes, is likely to be enacted in 1977.

On top of all that -- Congress will pass a \$3 minimum-wage bill next year.

More and more ideas to get business to spend for a clean environment. A Senator would tax industrial polluters to pay for air-quality research. No chance of early passage, but it may be a preview of the future.

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Here's a rundown on the prospects for some other items before Congress:

Busing. Opposition mounting. HEW will be banned from withholding money to force it. But an antibusing constitutional amendment? Won't happen soon.

Food stamps. Program review under way, with an eye to eliminating abuses. Under new rules from Agriculture, buyers will be ordered to countersign stamps.

Territorial waters. The limit will be extended from 12 to 200 miles -- but foreign fleets will be allowed to fish, a courtesy we'll expect of others.

Natural gas. Severe shortages are due this winter, since temporary relief is snagged on an impasse in the Senate over price decontrol. We'll update you.

No-fault. A minimum-standards bill should be on Ford's desk by Christmas.

Medicare. Efforts to block a rise in patient fee (to \$104 Jan. 1) to fail.

G.I. Bill. A White House-backed plan to end it will die in the Senate.

Land use. Will pass and be vetoed next year; scant chance for an override.

Illegal aliens. Crackdown may give amnesty to those here over three years.

Savings bonds. Despite White House pleas, the 6% interest rate won't go up.

Jobs. Democrats will present Ford with an "employer of last resort" plan next spring -- \$40 billion to create 5.5 million jobs. Backers claim savings in unemployment compensation and new income would reduce net cost to \$10 billion.

Like it or not -- the Government is neck deep in New York's fiscal crisis. The threat of default is already a federal, as well as state and city, problem, as the tremors are being felt in hundreds of communities around the country -- more precisely in places where the banks own a piece of New York City's debt. Among national banks alone, over 1,700 hold obligations of some \$1.8 billion.

Consider the case of Independent Bank Corp., a state bank in Ionia, Mich. (Ford's old district). It has over half its gross capital tied up in NYC bonds. While Fed Chairman Burns has assured there would be loans to see banks through temporary liquidity crises, think of how a New York failure would hurt the city of Ionia which can sell its bonds only to local banks. An IBC officer told us: "A New York City default would make us quite leery of buying municipal issues."

And don't dismiss the domino theory -- but later, if default does happen.

What can Washington do? Well, for openers, there'll be a lot of arguing. The Administration is still opposed to stepping in, but its resolve is cracking. A former top policy maker, a conservative, sees a gradual but reluctant shift based on Burns' assessment that a default in New York could stall the recovery.

In Congress, no such reticence -- instead, an array of ideas being offered. By Democrats mostly (at least three presidential hopefuls are in on this one) and the New York delegation, including its two GOP Senators. The plans range from direct loans (Bentsen) to federal reinsurance (Jackson) to loan guarantees (favored by Javits in the Senate and getting about all the play in the House).

Outlook: Senate hearings are under way, they begin in the House next week. The various proposals will be aired, and ultimately -- but by Dec. 11, the day default would be most likely to occur -- Government will okay a bail-out scheme.

We predict that it will wind up in some form of loan guarantees, a formula not unlike one that saved Lockheed Aircraft in 1971, but one that will preserve a separation of powers. Burns will accept that, and Ford will listen to him.

You may wonder if it's a good time to speculate in New York City bonds -- at "the price of a lifetime," as low as 30¢ on the dollar, below default levels. We asked an analyst who once advised financier-philanthropist Bernard Baruch. He says Baruch bought 40¢ Arkansas bonds after the state went bust in the '30s, on a theory it wouldn't stay in default, and made a killing. Food for thought.

Quiet steps are being taken to reshape the Central Intelligence Agency.
One objective: To free the agency from "excessive" Pentagon pressures.

Another, to lessen the influence the State Department wields over the CIA.
And, at the same time, a drive is on to find more spies who are willing to do the tedious undercover work that a successful intelligence operation requires.
Little of this story has been told. Here is a backgrounder for you:

The Pentagon comes in for some severe criticism by CIA's civilian brass.
In particular, scare-tactic lobbying by the military to boost CIA's budget -- the old routine of whispering to Congress that "Soviet subs are off the coast" at times when Congress just happens to be considering appropriations requests from the Defense Department and the CIA. The growing view: No need for that.
Moreover, some CIA professionals resent what they regard as interference by the State Department -- "tailoring" CIA information to foreign-policy goals. (The charge that CIA figures on Viet Cong troop strength in the Tet offensive were doctored to match an Administration line is offered as an illustration.)

To correct the alleged abuses, the agency is doing some intense lobbying,
asking Congress to amend the 1947 law which set up the CIA in the first place.
Specifically, CIA seeks exclusion of military men from its two top posts.
It's also asking Congress to block any Secretary of State from serving as head of the National Security Council, a position that Henry Kissinger holds today.

CIA morale? Low. Investigations and adverse publicity haven't helped. Nor has this: The agency has become infected with Washington bureaucracy-itis. Too many empire-builders, some offices overstaffed, some methods cry for change. Vietnam proved, for example, that the British Government could gather as many facts with 12 undercover agents as we could with 700 people in the same area.

Then there's the problem of spies who don't want to stay out in the cold. The CIA can hire plenty of people who like to work in the open, but we're told there's a shortage of men and women willing to go overseas and underground -- to pose as merchants, taxicab drivers and such while serving as CIA operatives. These missions can mean danger, hardship, facelessness -- sometimes for years.

If you know anyone interested in working for CIA, suggest that they write CIA Personnel Director, Washington, D.C. 20505. Or telephone 703/351-2028.

To other subjects -- most of them with a Washington focus:

Abolish the Consumer Product Safety Commission? No, that won't happen.
Its present chairman ignited the speculation when he told a surprised Congress that his agency was one that could be dropped after 1982. Few buyers for that. Instead, we look for the CPSC to grow -- starting with the creation of jobs for "consumer safety coordinators" in some of the larger states across the U.S.

Need consumer contacts in the Federal Government? They're named by agency
in "Contacts," an \$11 book that also lists state officials and consumer groups. Address Washington Communications Counselors, 1701 K St., NW, Wash., D.C. 20402.

About that congressional pay raise: Our mail still bulges with questions
as to who gets what. Here it is in a capsule: The pay increase came to 5% and the beneficiaries include not only Congress members but also 1.4 million federal civil service employees and 2.1 million members of the armed forces. A boost to buying power in the D.C. area, since 457,724 civilians and military are on the U.S. payroll here. A boon for California too -- 335,134 such jobs.

Finally, a postal hint -- if you have occasion to mail to points abroad: After January 1 you can seal any small packets or printed matter that you send. Under the old system, mailers had to leave one end unsealed for inspection.

Disturbing whispers are being heard in business circles. They concern -- Alleged abuses in the way Government's antidiscrimination agency operates. Or -- bluntly -- charges that the fairness agency is itself "unfair."

Those are hard words, admittedly. However, because we sensed a story here, we assigned one of our reporters to seek out and interview a number of persons who've had firsthand experience with the Equal Employment Opportunity Commission.

Among them: rank-and-file workers, presidents, personnel aides, attorneys, congressional staff members, minority-group leaders and people with the EEOC.

The subject affects millions of Americans who are facing actual inequities in employment, and others as well -- managers, stockholders and taxpayers.

Those making the allegations are, in some instances, frightened people -- people afraid to bring their stories into the light for fear of "retaliation" by employes or unions, or by minions of the Government, including the EEOC.

First, criticism of the EEOC -- a summary of what our checking turned up: Charges of rudeness, threats and high-handed pressure by agency personnel. One executive says an EEOC staff director told him, "I'm going to hang you."

Charges that investigators inflate single complaints into multiple gripes. "They'll come in because one person has filed, then start looking for patterns."

Charges of practices tantamount to blackmail -- employes talking of suing simply to force quick noncourt settlement, which ends any fight on principle. Also cited: bureaucratic delay at EEOC, costly litigation, biased inspectors.

In many instances, executives feel there is no negotiating with EEOC -- that you accept EEOC terms or be automatically hit for "rejecting negotiation."

At other times, a widespread feeling that business is behaving passively, caving in when accusations arise, settling cases just to avoid legal expense.

Once -- three years after a company was told by EEOC to forget a charge -- the agency suddenly demanded more information, but records had been discarded. To avoid that, some propose that EEOC have deadlines -- after which, no suing.

In defense of EEOC, we did hear reports of how employes are intimidated, browbeaten by their employers, made reluctant to air a legitimate grievance.

And this view: Some workers lack a command of English, can best be helped through class-action suits which link their complaints to those of co-workers.

Also, many blacks and women still feel shortchanged by our business system. Organizations representing both stress this, even while conceding EEOC's faults. The status of women? When salaried, they average only 60% of what men are paid. The status of blacks? Less than 3% of U.S. managers come from their ranks.

Back to Congress for a moment. Polls show it has a bad "image" problem, and that worries some members -- as well it might. Consider these developments:

First there was the pay raise Congress gave itself. Voters were furious.

Now, surprisingly, Congress is getting ready to test the public ire again, this time through a proposal that would double congressional living allowances. And -- plans to work fewer days in '76, so members can campaign for reelection.

Sincerely yours,

The Editors

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